

STATE OF CALIFORNIA
Department of Insurance
45 Fremont Street, 24th Floor
San Francisco, CA 94105

SUBJECT: Formation of a Title Insurance Company

California Insurance Code Section 12359 establishes the requirement that a title insurance company must have a minimum paid-in capital of \$500,000 for admission. Further, Insurance Code Section 700.02 provides that no (new) insurer shall be issued a certificate of authority unless said insurer possesses, in addition, a surplus of not less than 100% of the minimum paid-in capital. Therefore, a newly formed title insurance company is required to show \$1,000,000 in capital and surplus before it could be considered by this Department for a certificate of authority.

At the outset, the applicant should address a letter to the Insurance Commissioner, attention of the Name Approval Unit, at 45 Fremont Street, 21st Floor, San Francisco, CA 94105, requesting approval of the name under which the applicant intends to transact its business pursuant to the provisions of California Insurance Code Section 881. An application may list up to three names, in order of preference, and must be accompanied by a \$101 filing fee payable to the California Department of Insurance. Name approval requests for domestic companies in the process of formation must be accompanied by a disclosure of the company's principals. Copies of the California Insurance Code sections relating to name approval are attached.

The applicant must file articles of incorporation with the Secretary of State. After the corporation has been formed and duly qualified, it may apply to this Department for an organizational permit so that it can raise the necessary capital to commence its operations. Instructions to complete and file the permit application are contained in Title 10, California Code of Regulations, Section 2600, et seq. The permit application is an important step in the qualification of the insurer in that it requires detailed biographical information concerning the officers and directors, the contemplated plan of operation of the corporation, a projection of anticipated income and disbursements for a substantial period of years, and other essential data.

The procedure whereby a newly formed insurer is licensed to transact insurance in California is fairly complex. The admission procedure involves an exhaustive review of, first, the application for an organizational securities permit and, second, the application for a certificate of authority. In addition to the documents that are required as exhibits to the permit application, the application for a certificate of authority must be accompanied by detailed business projections and financial studies. The purpose of these exhibits is to project the company's anticipated income, expenses and other disbursements over a period of years.

Further, an insurer applicant is required to present a fairly detailed description of its plan of operations in California. Such presentation must include copies of the contract(s) which it intends to issue, the methods to be used by the company in the training and recruitment of its title insurance and escrow personnel, and a statement describing the

competitive climate in the geographic area in which it intends to concentrate its business effort.

The insurer applicant must also indicate whether the company intends to operate primarily through its own branch office, whether it intends to concentrate its efforts on underwriting the title business of its own or independent underwritten title companies, or some combination of the foregoing. Further, the applicant must furnish a description of the method by which its accounting and bookkeeping records will be maintained, to ensure that the company will be able to properly file its NAIC Convention Form Annual Statement with this Department.

Other essential legal requirements and provisions applicable to a newly formed title insurance corporation may be found in the latest edition of the California Insurance Code and in Title 10 of the California Code of Regulations.

The California Insurance Code may be purchased by ordering from West Publishing Company at 1-800-328-9352. A copy of Title 10, Chapter 15 of the California Code of Regulations may be purchased from Barclays Law Publishers, P.O. Box 3066, South San Francisco, CA 94083, (415) 244-6611

Enclosures: Cal. Ins. Code Sections re Capital/Surplus
Cal. Ins. Code Sections re Name Approval